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# Subscriptions V2 Follow-Up

July 31, 2017

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**EXHIBIT 5674.R**

**EXHIBIT 5674.R-001**

# Context & Summary

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## Context

- 2 key follow-ups from last meeting:
  - **Billing Policy Update Tactical Plan:** not yet complete. Target completion date: ~8/21, Announcement @ Playtime 10/17
  - **Subs Rev Share Change:** Two options: (1) 30% for 6 months / 15% thereafter or (2) 30% for 12 months / 15% thereafter (Apple, Amazon model)
- Increasing concern that top subscription devs will de-integrate with Play Billing
- Spotify update

## To Discuss Today

- De-integration risk, and potential short-term solutions to mitigate, while we wait for policy change to launch

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# De-integration risk

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## Increasing concern that top subs devs de-integrate

	Subs Rank (by 2016 spend)	2016 Spend	Status	Comments
LINE MUSIC	8	\$6M	De-integrated (June 2017)	-Stated 30% rev share too high -We decided not to offer ADAP
tinder (Match)	1	\$46M	Moderate Risk	-Asked if they could launch other payments
Dropbox	9	\$6M	High Risk	-Stated they'll move off Play Billing this week -Asked for 10-15% terms
okcupid (Match)	18	\$4M	Moderate Risk	-Launched CC in addition to GBP
badoo	23	\$3M	Moderate Risk	-Launched CC + PayPal in addition to GPB
bumble (Badoo)	43	\$2M	Moderate Risk	-Launched CC in addition to GBP



Primary concern is NOT Play revenue impact, but (1) increased apps billing inconsistency and (2) more difficulty launching policy change

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# Options to mitigate de-integration risk

Recommended

Option	Risk
Wait to launch universal <b>billing policy</b> and <b>revenue share change</b>	More developers de-integrate, making policy change harder and optics worse
<b>Offer select devs early access to new subs rev share terms</b> (30% for 6 or 12 mo, 15% thereafter), and inform of upcoming policy change	<ul style="list-style-type: none"> <li>- May be perceived as inconsistent</li> <li>- At risk devs still de-integrate</li> <li>- Increased risk of leaks to press and competitors</li> </ul>
<b>Launch universal rev share change (30% for 6 or 12 mo, 15% thereafter) now, prior to billing policy update</b>	<ul style="list-style-type: none"> <li>- No longer can bundle rev share change with billing policy update announcement</li> <li>- At risk devs still de-integrate</li> </ul>
<b>Extend LRAP terms (15% effective immediately) to qualifying devs in other categories</b>	<ul style="list-style-type: none"> <li>- Increases price pressure (on apps and games)</li> <li>- Rationale unclear</li> <li>- Consideration unclear</li> </ul>

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- 50% chance for Dropbox for option 3.

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Slide 5

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- 1 Larissa Fontaine (Google), Paul Feng (Google) feels like optimal solution is to launch the universal billing policy and rev share update, especially if we can get it done soon. We may lose a few more devs, but we'd avoid short-term fixes (e.g. more aggressive price cuts) which could create more inconsistency and pricing pressure. What do you think?

Samer Sayigh, 7/31/2017

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Rev Share

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# Competition: Apple & Amazon @ 30% for 12 months

70/30 rev share model prevalent. Apple & Amazon publicly changed subscription terms

	Non-Subs IAP	Subs
<b>Facebook (for news)</b>	N/A	<u>0%</u>
<b>Apple</b>	70/30	<b>70/30 (1st year) 85/15 (13+ month)</b>
<b>Subscribe with Amazon</b>	N/A	<b>70/30 (1st year) 85/15 (13+ month)</b>
Amazon (Paid Apps)		70/30
Amazon (UG Apps)		\$0.002 / minute (varies by geo)
Samsung Galaxy Apps		Standard: 70/30 Galaxy App Partners: 80/20
OneStore (KR)		70/30
Opera Mobile		70/30
Yandex (RU)		70/30
Airtel Apps (IN)		Free (pays dev \$0.15 per install)
9apps (IN)		Free
SideMe		Varies by FOP
Chinese App Stores		~50/50; varies by spend tier, form factor

~20% effective subscription rev share is not out of band, when compared to "specialist" competitors

Competing Service <i>Affiliates, OEMs, Cable Companies</i>	Effective monthly revenue share*
<b>Subscriber Acquisition (video, music)</b>	<b>10-15%</b>
<b>Payment Processing &amp; Billing Mgmt</b> <i>Zuora, Stripe, Chargify, Recurly, Braintree</i>	<b>3-6%</b>
<b>Analytics &amp; Reporting</b> <i>Mixpanel, Flurry, App Annie</i>	<b>0-1%</b>

**Total: 13-22%**

\*Competitors use various price metrics: revenue share, subscriptions, and one-time bounties. Table estimates effective monthly revenue share.

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- Presenter: Samer

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# We're leaning towards 30% for 6 month (vs. 30% for 12 months)

## Cons

### Price war risk

- Could trigger race to bottom (w/ Apple & Amazon)

### Higher games contagion

- Increased pricing pressure on games non-recurring IAP
- Increased interest from games in converting to subs business model

### Gives away some margin, but impact isn't substantial

## Pros

### Better helps land billing policy change

- Best offer on the market

### Makes Android platform more attractive

- Acknowledges only a few devs can keep subscribers for 13+ months (data)
- Meaningful benefit for developers, addressing platform monetization gap

### More sustainable

- Less pressure for LRAP-like deals

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# Potential competitor response to 30% for 6 months / 15% [REDACTED] change from Play

Three potential responses from Apple or Amazon:

**Stay** (30% for 12 months)

**Match** (30% for 6 months)

**Beat** (30% for <6 months)



## Possible

- Can argue that devs achieve longer sub periods on iOS vs. Android

## Possible

- May succumb to pressure from developers that Play has better pricing than Apple

## ??

- News pressure?

Subscribe  
with Amazon

## Unlikely

- Competing for developer attention

## Possible

- Added incentive for devs to integrate with Amazon

## Possible

- Amazon may be less interested in direct revenue from Subscribe with Amazon

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## Potential Spend + Revenue Uplift

	Total (2 year)		Total (4 year)	
	Spend	Play Revenue	Spend	Play Revenue
<b>Base Case</b> (No rev share or policy change)	\$1.7B	\$447M	\$3.7B	\$971M
<b>Rev Share + Policy Change</b>				
30 (6 months) / 15	\$2.3B (\$600M)	\$500M (+\$53M)	\$4.8 - 5.1B (\$1.1 - 1.4B)	\$1101 - 1221M (+\$130 - 250M)
30 (12 months) / 15		\$548M (+\$101M)		\$1231 - 1471M (+\$260 - 500M)

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10

- Presenter: Samer
- Effective Rev Share Assumptions
- 30 (12 months) / 15: 28%
- 30 (6 months) / 15: 25%

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# Appendix

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# Games Impact: 2 risks to consider

Risk	Risk Assessment	Risk Mitigation
1 Games Convert to Subscription	<p><b>LOW</b></p> <ul style="list-style-type: none"> <li>Subs may appeal to head games due to <u>long non-recurring IAP spend duration</u> (<i>For top 10 games, buyers take ~11 months to reach 80% of lifetime spend from 1st purchase; detail in <a href="#">appendix</a></i>)</li> <li>However, per Games BD, head games unlikely to <u>fully</u> convert to subs model (<i>may undermine HVU upside</i>); also, game subs on Play today have short durations (<i>1-2 months</i>)</li> </ul>	<ul style="list-style-type: none"> <li>Include policy / guidelines about what may be sold via subscription</li> <li>Keep subs rev share @ 30% for 6+ months</li> </ul>
2 Price Pressure on Non-Recurring IAP in Games	<p><b>MEDIUM</b></p>	<ul style="list-style-type: none"> <li>Develop rationale (<i>next slide</i>)</li> <li>Come up with subs rev share that isn't visible price cut</li> </ul>

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- Presenter: Samer
- John M: Game devs are profit maximizing so they won't switch HVUs down to subscriptions. Also, the "in the moment" purchasing driven by LiveOps can be hard to replicate with a subscription.

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## Games

< we need to work with John McGuire on games positioning.... >

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13

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Slide 13

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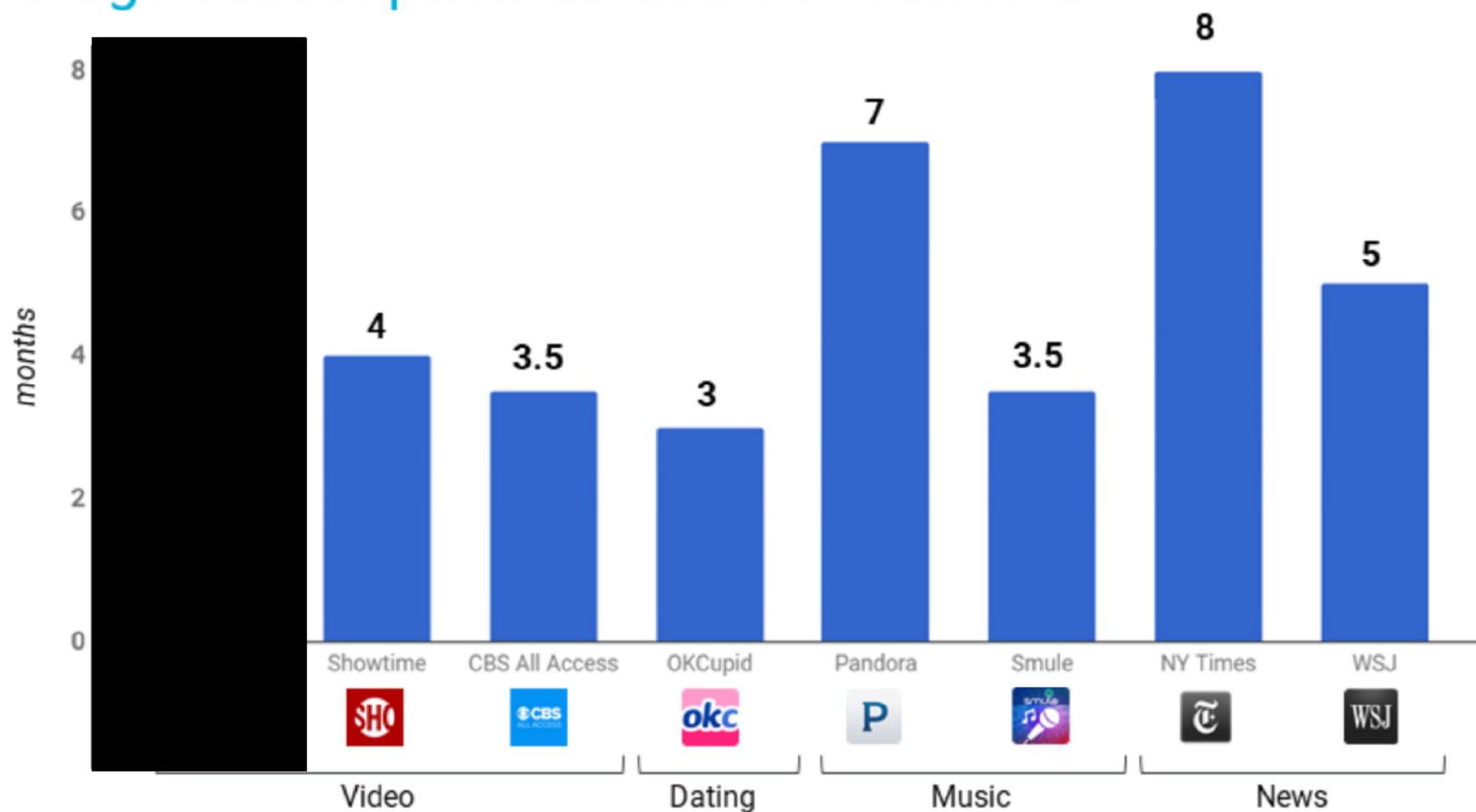
1 Paul to talk to John....

AI - add the games analysis.

Paul Feng, 7/28/2017

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## Average subscription duration on Android



Source: Internal data.

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14

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## Top game titles on Play have reasonably long spend duration (non-recurring IAP)

<i>Top Game Titles</i>	Months since 1st purchase before reaching 80% of total spend on game	
	All Buyers	High Value Gamers Only (\$1000+ minimum spend on title)
Clash of Clans	10	13
Clash Royale	5	6
Candy Crush Saga	18+	18+
Game of War	14	15
Mobile Strike	8	8
Candy Crush Soda Saga	15	18
Slotomania Free Slots 777	18+	18+
Star Wars: Galaxy of Heroes	8	9
Pokemon Go	3	6
Clash of Kings	12	12
<b>Average</b>	<b>~11 months</b>	<b>~12 months</b>

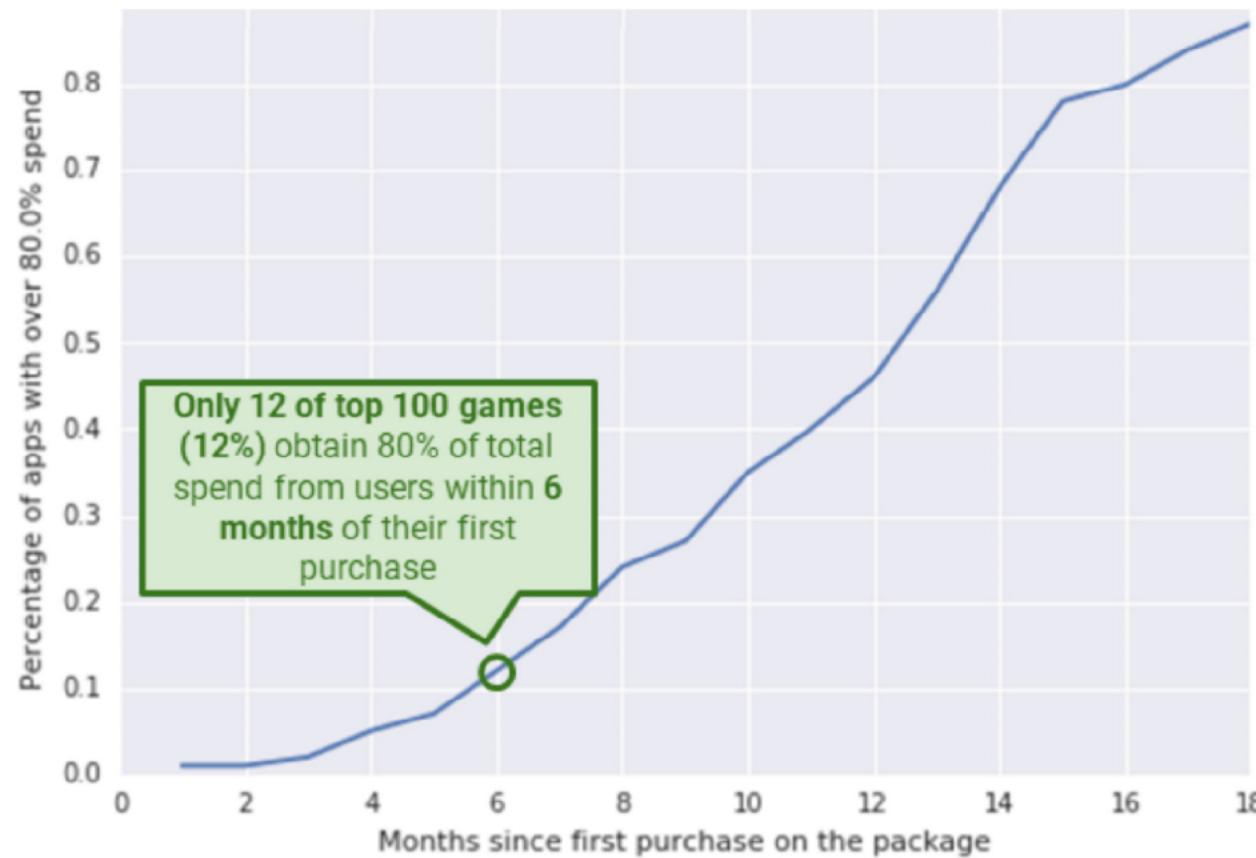
Source: Internal Play Data

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## Top 100 Game Spend Distribution



Top 100 Games on Play (by Spend)



Source: Internal Play Data

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## Rev share positioning vs. Games

Subs are challenging but worthwhile investment for users / developers / Google

### Ecosystem investment

- Subscriptions help diversify content and experiences for the ecosystem, and that's good for users. We are investing to ensure we have great subscription experiences available for Android users.
- Subscriptions bring in high value new paying users and diversify the user base
- Game developers can also build subscription experiences

### Customer commitment

- Subscriptions require users to make an upfront commitment to pay over many periods, that commitment is hard to earn

### Subscriptions (often) cost more

- Incremental users cost subscription services more because of content fees, etc and the need to provide ongoing content.

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- Presenter: Paul

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## Play transaction costs

	<b>2016 Subscription Spend, by FOP</b>	<b>Google Transaction Cost (% of spend)</b>
<b>Credit Card</b>	<b>61%</b> <i>(down 5pp from 2014)</i>	<b>4.5% to 6.5%</b>
<b>DCB</b>	<b>27%</b> <i>(down 4pp from 2014)</i>	<b>6% to 15%*</b>
<b>PayPal</b>	<b>12%</b> <i>(up 9pp from 2014)</i>	<b>4.5% to 6.5%</b>
<b>Stored Value</b>	<b>0%</b> <i>(launched March 2017)</i>	<b>10.5- 12.5%</b>



**2016 weighted average cost for subscriptions = ~7%**

Google Transaction Cost includes transactions fees, chargebacks, & customer support.

\* Assume 10% average for DCB. Contracts currently migrating from 15% to 6%.

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# Developer category margins

Developer Category	Price (per month)	Contribution Margin	Sub Duration (months)	Android Subscriber LTV
Video	\$10	30%	4	\$12
Music & Audio	\$10	25%	6	\$12
News & Magazines	\$15	60%	5	\$60
Dating / Social	\$25	80%	3	\$60
Health & Fitness	\$15		4	\$48
Tools	\$10		4	\$32
Productivity	\$10		5	\$40

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